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## **China-U.S. Relations: Current Issues and Implications for U.S. Policy**

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## Summary

Throughout much of the George W. Bush Administration, U.S.-China relations have remained unusually smooth and stable. But in the 109<sup>th</sup> Congress, U.S. policy toward China appears to be subject to competing reassessments. State Department officials late in 2005 unveiled what they described as a new policy framework for the relationship — one in which the United States was willing to work cooperatively with a non-democratic China while encouraging Beijing to become a “responsible stakeholder” in the global system. Other U.S. policymakers appear to be adopting somewhat tougher stances on issues involving China and U.S.-China relations, expressing their concerns about strong PRC economic growth and a more assertive and influential PRC diplomacy in the international arena.

Taiwan, which the PRC considers a “renegade province,” remains the most sensitive issue the two countries face and the one many observers fear could lead to potential Sino-U.S. conflict. While Beijing has long maintained it has the right to use force to “reunify” with Taiwan, late in 2004 Chinese officials launched an effort to codify this assertion with an “anti-secession” law (adopted in March 2005) aimed at curbing Taiwan independence. U.S. officials regarded the action as provocative, saying it was unconstructive for regional stability. The PRC move prompted renewed concerns and activity among Taiwan’s supporters in Congress.

Another matter of growing U.S. concern is China’s increasing global “reach” in recent years and the consequences that Beijing’s expanding economic and political influence have for U.S. interests. To feed its appetite for resources, China is steadily signing trade agreements, oil and gas contracts, scientific and technological cooperation, and multilateral security arrangements with countries around the world, some of which are key U.S. allies. Some U.S. observers view these activities as a threat to the United States; a number of PRC moves since then to improve relations with Taiwan and ease cross-strait tensions have not eased these congressional concerns. Even if these trends are simply the results of China’s benign economic development and growth, they may pose critical future challenges for U.S. economic and political interests.

Much of current concern about China appears driven by security calculations at the Pentagon and in Congress. In remarks at a Singapore Conference in June 2005, Secretary of Defense Donald Rumsfeld questioned the motivations behind China’s expanding military budget and stated that a congressionally mandated DOD report in 2005 concludes Beijing is greatly understating its military expenditures. Bilateral economic and trade issues also remain matters of concern, with U.S. officials and Members of Congress this year particularly criticizing China’s failure to halt piracy of U.S. intellectual property rights (IPR) and China’s continued constraints on its currency valuation. In the February 2005 State Department Country Reports on Human Rights Practices, U.S. officials again classified China’s human rights record as poor. Beijing continues its crackdown on independent religious organizations, citizens accused of leaking state secrets, and other political activists.

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# **China-U.S. Relations: Current Issues and Implications for U.S. Policy**

## **Most Recent Developments**

January 18, 2006 — PRC sources confirmed that North Korea's Kim Jong-Il had just completed a secretive, eight-day visit to China, ostensibly to discuss the Six-Party Talks.

January 14, 2006 — Villagers in Panlong village in Guangdong Province were attacked by police officers (and possibly paramilitary troops) on their sixth day of protests against government land seizures.

January 8, 2006 — China's State Council issued a national emergency response plan, dividing emergencies into four categories: natural disasters; accidents; public health incidents; and social safety incidents. The plan also will establish an office in charge of emergency response management, answerable to the State Council to collect information and coordinate emergency response.

January 4, 2006 — Bolivia's president-elect Evo Morales arrived in Beijing for a two-day visit, saying China was “a political, ideological and programmatic ally of the Bolivian people” and inviting China to develop Bolivia's natural gas reserves.

## **Background and Overview**

### **Introduction**

U.S.-China relations, remarkably smooth from 2001-2004, became more problematic again in 2005 as some U.S. policymakers appear to be adopting tougher stances on issues involving China and U.S.-China relations. Throughout much of the George W. Bush Administration, U.S.-China relations were smoother than they had been at any time since the Tiananmen Square crackdown in 1989. The two governments resumed regular high-level visits and exchanges of working level officials, resumed military-to-military relations, cooperated on anti-terror initiatives, and worked closely to restrain and eliminate North Korea's nuclear weapons activities. U.S. companies continued to invest heavily in China, and some PRC companies began investing in the United States.

Despite this, thorny problems continue to be factors in the relationship, including difficulties over China's intentions toward and U.S. commitments to democratic Taiwan, various disputes over China's failure to protect U.S. intellectual property rights, and the economic advantage it gains from pegging its currency to a

basket of international currencies. In addition, China's accelerating rise in the world has significant implications for U.S. power and influence around the globe. In pursuit of its economic development agenda, China's enormous and growing appetite for energy, raw materials, and other resources has led it to seek an increasing number of economic and energy-related agreements around the world, many of them with key U.S. allies. A number of new developments and statements since late 2004 suggest that U.S. policymakers are reassessing the relationship in light of strong PRC economic growth and a more assertive PRC international posture.

## **Background**

For much of the 1990s, a number of factors combined to ensure that U.S. congressional interest in the People's Republic of China (PRC) increased annually. In the years after the 1989 Tiananmen Square crackdown, Members often felt that they were neither consulted nor listened to by the Executive Branch concerning the appropriate direction for U.S. China policy. Without the strategic imperative that the Soviet Union had once provided for comprehensive U.S.-China relations, individual Members began to raise their own more narrowly focused concerns in China policy, such as efforts on behalf of Taiwan, in favor of human rights, or against forced sterilization and abortion.

During the later Clinton Administration, when U.S. officials were pursuing a "strategic partnership" with China, some Members became increasingly concerned that the U.S. government was not thinking seriously enough about the PRC as a longer-term threat to U.S. interests. Members were particularly concerned about supporting the democratization and growing political pluralism Taiwan had embraced since abandoning authoritarian rule. Congress in these years enacted more provisions to accommodate Taiwan's interests, engaged in repeated and protracted efforts to further condition or even withdraw the PRC's most-favored-nation (MFN) trade status, held hearings and considered legislation targeting the PRC's human rights violations, created two commissions to monitor PRC developments, and imposed a host of requirements on the U.S. government to monitor, report on, and restrict certain PRC activities.<sup>1</sup>

In late 2001, however, U.S.-China relations began to experience a sustained period of unusual stability, and Congress as a whole became less vocal and less legislatively active on China-related issues. The reasons for this could not be attributed to any resolution of entrenched bilateral policy differences — such as those long held over human rights or on Taiwan's status — for these differences still existed and are likely to plague the relationship for the foreseeable future. Rather, other factors and policy trends appeared to be at work:

- **Assertiveness on China.** The Bush Administration early on sought to distance itself from the policies of "engagement" favored by American Presidents since 1979 and instead de-emphasized the importance of Sino-U.S. relations in American foreign policy, even

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<sup>1</sup> In the United States only, the term "most-favored-nation" (MFN) status has been replaced by the term "normal trading relations" (NTR) status.

while being open to substantively and symbolically meaningful dialogue with China at most senior levels.

- **Support for Taiwan.** The Bush Administration was more supportive of Taiwan security than were any previous U.S. Administrations. Some suggested that greater support for Taiwan served to balance U.S. contacts with the PRC and eliminate recurring White House tensions with Congress, where Taiwan is an interest of many Members.
- **Changing U.S. Priorities.** September 11, the resulting U.S.-led anti-terrorism war, and U.S. military campaigns in Afghanistan and Iraq brought about dramatic changes in global and national priorities — including new agendas within Congress — that took precedence over many other foreign policy issues, including the PRC.
- **Changing PRC Priorities.** After 2001, the PRC became preoccupied with a wholesale transition to a new generation of leaders who began to put their own stamp on policy decisions. New PRC leaders remained focused on maintaining social stability, nurturing China's growing international economic clout, and expanding its increasingly modulated and proactive foreign policy.<sup>2</sup>

This report addresses relevant policy questions in current U.S.-China relations, discusses trends and key legislation in the 109<sup>th</sup> Congress, and provides a chronology of developments and high-level exchanges from January 2005 onward. It will be updated as events warrant. Additional details on the issues discussed here are available in other CRS products, noted throughout this report. For background information and legislative action preceding 2005, see CRS Report RL31815, *China-U.S. Relations During the 108<sup>th</sup> Congress*, by Kerry Dumbaugh. CRS products can be found on the CRS website at [<http://www.crs.gov/>].

## Key Current Issues

### U.S.-PRC “Senior Dialogue”

On December 7, 2005, U.S. Deputy Secretary of State Robert Zoellick and PRC Vice Foreign Minister Dai Bingguo met in Washington D.C. to begin the Second U.S.-China Senior Dialogue meeting to discuss “the strategic and conceptual

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<sup>2</sup> At its 16<sup>th</sup> Party Congress (November 8-14, 2002), the PRC's Communist Party selected a new Party General Secretary (Hu Jintao), named a new 24-member Politburo and a new nine-member Standing Committee, and made substantive changes to the Party constitution. Further changes in government positions were made during the 10<sup>th</sup> meeting of the National People's Congress in March 2003, and in September 2004. For more on the leadership transition, see CRS Report RL31661, *China's New Leadership Line-up: Implications for U.S. Policy*, by Kerry Dumbaugh.

framework” of U.S.-China relations and other issues.<sup>3</sup> The idea for an ongoing dialogue was suggested by PRC President Hu Jintao during a meeting with President Bush at the November 2004 Asia Pacific Economic Cooperation (APEC) meeting in Chile. Preparations were finalized during Secretary of State Condoleezza Rice’s subsequent visit to China. The talks, which are planned to be held twice annually, represent the first time in the U.S.-PRC relationship that dialogue at this level of seniority has been held on a regular basis. They suggest, in the words of a U.S. official spokesman, an American recognition of “the role that China is playing in Asia, in global affairs, [and] as a member of the U.N. Security Council.”<sup>4</sup>

Along with the establishment of regular U.S.-China talks, a speech given by Deputy Secretary of State Zoellick on September 21, 2005, suggests there is an Administration effort underway to explore a new framework for U.S. diplomacy with China. Zoellick’s speech appeared designed to strike a balance somewhere between the “open door/engagement” school of thought and the more dire security threat concerns regularly raised by Pentagon planners (as expressed in the latest Pentagon report, *Military Power of the People’s Republic of China*, released on July 19, 2005). Zoellick’s September 2005 speech emphasized the benefits of U.S.-China cooperation but focused on urging the PRC to become a “responsible stakeholder”—to not only reap the economic benefits of the global system but also to assume greater responsibilities in its global economic and political diplomacy. According to Zoellick, the United States is prepared to work cooperatively with a non-democratic China even as U.S. officials seek to improve China’s democratic prospects.

## Avian Flu

The close proximity of millions of people, birds, and animals in southern China has made it a common breeding ground for deadly types of influenza viruses, including the new H5N1 virus now afflicting poultry throughout Asia. Added to this, the PRC’s poor public health infrastructure and the traditionally secretive, non-transparent policy approach of its communist government have made international health specialists particularly concerned about the PRC as a potential contributor to a global flu pandemic. On January 27, 2004, the PRC became the tenth Asian country to acknowledge ongoing outbreaks of avian flu in poultry populations within its borders. According to the World Health Organization (WHO), H5N1 is now considered endemic in parts of China, afflicting not only domestic poultry and migratory birds, but also parts of China’s pig population.<sup>5</sup> During a U.N. summit on September 13, 2005, President George Bush and PRC President Hu Jintao reportedly discussed greater avian flu coordination, including an aggressive containment

<sup>3</sup> Deputy Secretary Zoellick used the phrase to describe the first senior dialogue meeting in Beijing in August 2005, at which the two sides discussed energy security, terrorism, economic development and trade, and issues of democracy, freedom, and human rights.

<sup>4</sup> State Department spokesman Richard Boucher in the daily press briefing of April 8, 2005.

<sup>5</sup> According to the U.S. Centers for Disease Control and Prevention. See website at [<http://www.cdc.gov/flu/avian/outbreaks/asia.htm>]

approach and establishment of an early-warning system.<sup>6</sup> Two months later, on November 16, 2005, Chinese officials reported the country's first human cases of avian flu.<sup>7</sup> As of January 19, 2006, the number of PRC human cases of avian flu has grown to nine, with six fatalities.

As a result of the 2003 global crisis with SARS, a new virus which originated in China in 2003-2004, PRC leaders appear to have grown more sensitive to the potential catastrophic effects of an avian flu pandemic. The PRC Ministry of Health reports it has established 63 influenza monitoring labs throughout China<sup>8</sup> and has crafted and published an emergency plan for an influenza pandemic, including a four-color-coded notification system.<sup>9</sup> On November 2, 2005, the government announced further aggressive anti-flu measures. These included an earmark of 2 billion yuan (\$420 million) from China's current budget to fight avian flu and the banning of poultry imports from 14 countries affected by the virus. On January 17-18, 2006, the PRC co-hosted in Beijing an international conference on avian and human influenza at which participating countries pledged \$1.9 billion to fight the disease.<sup>10</sup>

Despite these PRC initiatives, some international health experts quietly continue to question the PRC's transparency on avian flu issues. In late April and June 2005, for instance, PRC officials reported an unknown cause for the suspicious sudden deaths of thousands of migratory birds in western China's Qinghai Lake. In July 2005, a virology team from Hong Kong reported in a scientific journal that their research showed the Qinghai bird deaths were from an H5N1 strain genetically similar to that originating in south China. The Hong Kong report was vigorously criticized as inaccurate by Jia Youling, an official with the PRC Ministry of Agriculture charged with coordinating avian-flu eradication.<sup>11</sup> On June 18, 2005, the *Washington Post* reported that Chinese farmers had been using one of two types of anti-influenza drugs (amantadine, a drug meant for humans) to treat poultry for the H5N1 bird flu virus, rendering the drug ineffective against the virus strain in humans — a story that PRC officials also have denied.<sup>12</sup>

<sup>6</sup> King Jr., Neil, "Hu pledges efforts to ease U.S. strains —," *Asian Wall St. Journal*, September 15, 2005, p. A1.

<sup>7</sup> On December 15, 2005, PRC officials announced the sixth human case of avian flu.

<sup>8</sup> *Beijing Liaowang* in Chinese. Translated on September 26, 2005, in FBIS, CPP20051018050001.

<sup>9</sup> PRC Ministry of Health, "Preparations and Plan for an Influenza Pandemic Emergency," September 28, 2005, translated in FBIS, CPP20051012335002 (October 12, 2005).

<sup>10</sup> In addition to the PRC, the conference was co-hosted by the World Bank and the European Commission.

<sup>11</sup> The independent virology team was from the University of Hong Kong, and included Dr. Guan Yi, a co-author of the scientific report published in *Nature* magazine on July 7, 2005. For reference to PRC official Jia Youling's comments, see Sipress, Alan, "China has not shared crucial data on bird flu outbreaks, officials say," in the *Washington Post*, July 19, 2005, p. A15.

<sup>12</sup> *Washington Post*, June 18, 2005, p. A01. Some sources also have suggested that the  
(continued...)

## PRC Bids to Purchase U.S. Companies

Although PRC investment in the United States has been minimal to date, PRC companies have made several high-profile purchases and bids for American companies. In December 2004, the PRC's Lenovo Group Ltd. purchased IBM's personal computer division for \$1.25 billion. On June 21, 2005, the Haier Group, the PRC's preeminent refrigerator manufacturer, teamed with a consortium of investors in a \$1.28 billion offer for the Maytag Corporation, owner of the Amana, Jenn-Air, and Hoover brands, although the Haier offer was withdrawn on July 18, 2005. In the most sensitive case, China National Offshore Oil Corporation (CNOOC), one of the PRC's largest state-controlled companies, on June 21, 2005, made an unsolicited cash bid of \$18.5 billion for the U.S. oil company Unocal, topping the initial winning bid of \$16.4 billion made two months earlier by California-based Chevron. CNOOC withdrew its bid on August 2, 2005, in the wake of heated U.S. opposition.

The CNOOC bid for Unocal set off a spirited debate about the national security risks of selling American energy assets to the PRC.<sup>13</sup> Many energy economists and business representatives maintained that oil resources are fungible commodities, making ownership irrelevant compared to market forces.<sup>14</sup> Opponents of the deal asserted that U.S. oil reserves and energy companies are vital strategic assets, that the United States would be economically and strategically vulnerable if these assets were owned by a Communist country, and that sale of Unocal holdings throughout Asia would push the region further into China's economic orbit.<sup>15</sup> Members of Congress appeared most concerned about the potential security risks in the CNOOC deal. On June 30, 2005, the House approved an amendment (333-92) by Representative Kilpatrick to H.R. 3058 prohibiting the Treasury Department from using federal monies to approve the CNOOC bid for Unocal. The same day, House Members

<sup>12</sup> (...continued)

virus's apparent new resistance to known drugs may be the result of renegade pharmaceutical labs in China dispensing the wrong anti-viral medications, raising additional questions about the PRC government's ability to exert control over a potential pandemic. *International Herald Tribune*, July 5, 2005, p. 3.

<sup>13</sup> In a June 17, 2005 letter to President Bush, California Congressmen Richard Pombo and Duncan Hunter urged the President to begin a review of the U.S. security implications of such a sale. The letter was made available to *Reuters*.

<sup>14</sup> These views are espoused, for instance, by Robert J. Samuelson, economic columnist for *Newsweek* ("Let's Stay Out of This Fight...", *Newsweek*, July 11, 2005); Philip Verleger, a specialist in the economics of international energy at the Institute for International Economics in Washington, D.C. ("Many Oil Experts Unconcerned Over China Unocal Bid," *Washington Post*, July 1, 2005, p. D01); and Paul Magnusson, international trade economist for *BusinessWeek* ("Play Fair, and Insist That China Do the Same...", *BusinessWeek*, July 11, 2005, p. 31).

<sup>15</sup> Similar views, for instance, are held by John Tkacik, senior research expert on China at the Heritage Foundation ("Say No to CNOOC's bid for Unocal," *Asian Wall St. Journal*, June 29, 2005, p. A5); and Larry Wortzel, member of the congressionally established U.S. China Security Review Commission ("The Big Tug of War Over Unocal," *The New York Times*, July 6, 2005, p. 1).

adopted H.Res. 344 (398-15), urging President Bush to immediately review any CNOOC final agreement to buy Unocal.

## Taiwan

Taiwan remains the most sensitive and complex issue that U.S. policymakers face in bilateral Sino-U.S. relations. It is the issue that many observers most fear could lead to potential U.S.-China conflict. Beijing continues to lay sovereign claim to Taiwan and vows that one day Taiwan will be reunified with China either peacefully or by force. Beijing has long maintained that it has the option to use force should Taiwan declare independence from China. On December 27, 2004, the PRC emphasized this point again in its fifth white paper on national security, entitled “China’s National Defense in 2004.”<sup>16</sup> The paper called the Taiwan independence movement the single biggest threat to China’s sovereignty and to regional peace, and it vowed to prevent Taiwan independence at all costs. Chinese leaders are supporting these long-standing claims with more than 700 missiles deployed opposite Taiwan’s coast and with a program of military modernization and training that defense specialists believe is based on a “Taiwan scenario.”

Concerns have intensified in recent years because of Taiwan’s unpredictable political environment, where the balance of political power has teetered precipitously between two contending political party coalitions. One of these, led by the Democratic Progressive Party (DPP), controls the presidency and is closely associated with advocates of Taiwan independence. Taiwan’s President, Chen Shui-bian, is a DPP member who has spent much of his political career pushing for a separate international identity for Taiwan and referring to Taiwan as “already” an independent country. The other party coalition, led by the remnants of the once-dominant Nationalist Party (KMT), advocates greater policy caution and more engagement with the PRC. Since 2004, the DPP has taken a beating in several electoral contests: the KMT was returned to its slim majority in the legislature in December 2004 elections, and KMT candidates won 14 of 23 constituencies in local elections for city mayors and county magistrates, held on December 3, 2005.

**PRC Anti-Secession Law.** On March 14, 2005, the PRC’s National People’s Congress (NPC) officially adopted an “anti-secession law,” aimed at reining in Taiwan independence advocates and creating a legal basis for possible PRC military intervention in Taiwan. American observers and U.S. officials termed the initiative counterproductive, particularly given improvements in a range of Taiwan-China contacts since December 2004. Critics fear that the anti-secession law increases the possibility of conflict with Taiwan and that the provision could be used to harass independence advocates in Taiwan by, for example, labeling them “criminals” and demanding their extradition from third countries. While many of the new law’s 10 articles appear relatively conciliatory, Article 8 is of special concern because of its specific authorization of force. Article 8 states:

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<sup>16</sup> The paper was released by the Information Office of the State Council of the PRC. Full text is at [<http://english.people.com.cn/whitepaper/defense2004/defense2004.html>].

Article 8. In the event that the ‘Taiwan independence’ secessionist forces should act under any name or by any means to cause the fact of Taiwan’s secession from China, or that major incidents entailing Taiwan’s secession from China should occur, or that possibilities for a peaceful reunification should be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China’s sovereignty and territorial integrity. The State Council and the Central Military Commission shall decide on and execute the non-peaceful means and other necessary measures...<sup>17</sup>

**Changing PRC Political Pressure on Taiwan.** In the aftermath of the heavy-handed anti-secession law, PRC officials appear to have decided that a Taiwan policy of greater nuance and finesse may be of more service to mainland policy interests. In recent months, then, Beijing officials have taken a series of actions designed to increase pressure on the Chen government to be more accommodating to mainland concerns. While some China-watchers describe these measures as positive developments for cross-strait relations, others see the moves as an effort by Beijing to capitalize on and exploit Taiwan’s internal political divisions and to further isolate and weaken President Chen and his pro-independence DPP government.<sup>18</sup> Among other measures, Chinese leaders have issued a series of invitations to key political leaders in the KMT, PFP, and other Taiwan opposition parties — but not to the elected government — to visit China and hold talks. U.S. officials are concerned about the motivations of the visits (which one U.S. Government official termed “not benign on either side”) and have stressed that PRC officials should be speaking with the democratically elected Taiwan government.

**U.S. Taiwan Policy and U.S. Arms Sales.** U.S. policymakers generally have tried to maintain a delicate balancing act between Taiwan and the PRC, periodically admonishing each side not to take provocative action that could destabilize the status quo.<sup>19</sup> The George W. Bush Administration is regarded as having been more solicitous and supportive of Taiwan than any previous U.S. Administration since 1979.<sup>20</sup> Among other steps, the Administration in its first term did the following:

<sup>17</sup> Full text of the law can be found in the Chinese newspaper *China Daily* at the following website [[http://english.people.com.cn/200503/14/eng20050314\\_176746.html](http://english.people.com.cn/200503/14/eng20050314_176746.html)].

<sup>18</sup> “It’s classic divide-and-conquer strategy: Assemble the most allies possible and isolate your enemy.” Jean-Philippe Beja, senior fellow at the Center for International Studies and Research in Paris. Cited in Magnier, Mark and Tsai Ting-I, “China tries new tactic with Taiwan,” *Los Angeles Times*, April 29, 2005, p. A-3.

<sup>19</sup> Since the 1970s, when the United States broke relations with Taiwan in order to normalize relations with Beijing, U.S. policy toward Taiwan has been shaped by the three U.S.-China communiqués, the Taiwan Relations Act (P.L. 96-8), and the so-called Six Assurances. See CRS Report 96-246, *Taiwan: Texts of the Taiwan Relations Act, the U.S.-China Communiques, and the “Six Assurances”*, by Kerry Dumbaugh.

<sup>20</sup> As an example, in an ABC television interview on April 25, 2001, President Bush responded to a question about what his Administration would do if Taiwan were attacked by saying that the United States would do “whatever it took” to help Taiwan defend itself. Critics of the statement said that the United States had no defense alliance with Taiwan and had remained deliberately ambiguous about its reaction if Taiwan were attacked.

- Responded to Taiwan's annual request to purchase specific U.S. weapons by approving a more robust arms sales package to Taiwan, including Kidd-class destroyers, diesel submarines, and P-3C Orion aircraft.<sup>21</sup>
- Enhanced military-to-military contacts, including meetings between higher-level officers; cooperation on command, control, and communications; and training assistance.<sup>22</sup>
- Approved transit visas for top Taiwan officials to come to the United States, including Taiwan's President and Vice-President.

But faced with increasingly heated political battles between the pro-independence DPP and the status quo KMT, Bush Administration officials have appeared to ease somewhat their support of the Taiwan government since late 2003. The apparent reassessment was telegraphed on December 9, 2003, when President Bush, while standing next to visiting PRC Premier Wen Jiabao, issued a blunt warning to Taiwan, saying "The comments and actions made by the leader of Taiwan indicate he may be willing to make decisions unilaterally that change the status quo, which we oppose."<sup>23</sup> In addition, U.S. officials have expressed increasing frustration in the ensuing months over Taiwan's lagging arms purchases from the United States. Growing political disagreements in Taiwan so far have kept the government from purchasing much of the weapons President Bush approved for sale in 2001. To date, these disagreements have stalled a special arms acquisition budget that the DPP government submitted to Taiwan's legislature — originally for \$18 billion, then slashed to \$15 billion and finally \$11 billion in an effort to attract legislative support. Opposition KMT lawmakers continue to block consideration of the bill, arguing that its cost is too high and the weapons do not meet Taiwan's needs, while pro-independence advocates have argued and demonstrated for the budget.<sup>24</sup> U.S. officials appear frustrated with the years of delay over the special arms budget and have raised questions about future U.S. defense commitments to Taiwan if the delay continues.<sup>25</sup>

<sup>21</sup> See CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley Kan.

<sup>22</sup> According to an online journal from *Pacific Forum CSIS*, at a March 2002 meeting of the U.S.-Taiwan Business Council in Florida, Deputy Defense Secretary Paul Wolfowitz emphasized that along with arms sales, helping Taiwan more successfully integrate its military forces was an important U.S. priority.

<sup>23</sup> For more background information on Taiwan and its history with the PRC, see CRS Issue Brief IB98034, *Taiwan: Recent Developments and U.S. Policy Choices*; and for background on developments in U.S.-China relations during the 108<sup>th</sup> Congress, see CRS Report RL31815, *China-U.S. Relations During the 108<sup>th</sup> Congress*, both by Kerry Dumbaugh.

<sup>24</sup> On September 26, 2005, Taiwan supporters of the special arms budget staged a protest rally in Taipei to back the budget; participants were estimated at between 15,000-50,000.

<sup>25</sup> Speaking in San Diego on September 20, 2005, Edward Ross, a senior U.S. Pentagon official with the Defense Security Cooperation Agency, said it is reasonable to question U.S. defense commitments to Taiwan "if Taiwan is not willing to properly invest in its own self-

(continued...)

Similar controversies have occurred over other potential sales — such as the possible sale of an early-warning radar system to Taiwan to counter the PRC's missile threat. Lockheed Martin withdrew its bid to supply such a system after strong criticism of the deal reportedly prompted Taiwan military authorities to begin re-examining the proposed purchase.<sup>26</sup> Apart from this, other limited arms purchases are continuing. On October 26, 2005, for instance, the White House notified Congress that it had approved for sale to Taiwan 10 AIM-9M Sidewinder missiles and 5 AIM-7M Sparrow missiles, worth as much as \$280 million, both systems manufactured by Raytheon. The sale also reportedly included logistics support for F-16 aircraft and continuation of a pilot training program.<sup>27</sup>

**Taiwan and the World Health Organization (WHO).** For eight years, Taiwan's application for observer status in the WHO has been defeated — most recently on May 16, 2005, at the annual meeting of WHO's administrative arm, the World Health Assembly (WHA). Opposition from the PRC routinely has blocked Taiwan's bids on political grounds. PRC officials have argued that since Taiwan is not a state but a part of China it cannot be separately admitted to U.N. entities for which sovereign status is a pre-requisite for membership. Taiwan authorities maintain that "observer status" in WHO would be an apolitical solution in Taiwan's case, since other non-sovereign entities, like the Holy See and the Palestine Liberation Organization, have been given such status. The U.S. Government is on record as supporting Taiwan's membership in organizations "where state-hood is not an issue."<sup>28</sup> In 2004, the 108<sup>th</sup> Congress enacted legislation (P.L. 108-28) requiring the Secretary of State to seek Taiwan's observer status in WHO at every annual WHA meeting.<sup>29</sup>

**Official Taiwan-PRC Contacts.** While the Lien-Soong PRC visits earlier this year were conducted in the two party leaders' private capacities, official talks between China and Taiwan last occurred in October 1998, when Koo Chen-fu, Chairman of Taiwan's Straits Exchange Foundation (SEF) and Wang Daohan, president of the PRC's Association for Relations Across the Taiwan Straits (ARATS), held meetings in Shanghai.<sup>30</sup> But while official talks have remained stymied, indirect ties and unofficial cross-strait contacts have continued to grow and have seen significant recent breakthroughs. Taiwan businesses are increasingly invested across the strait, although the exact figures remain unclear. Taiwan-China

<sup>25</sup> (...continued)  
defense." *Xinhua Financial Network*, September 21, 2005, English.

<sup>26</sup> "Defense Firm Drops Radar Bid for Taipei," *Agence France-Presse*, February 7, 2005.

<sup>27</sup> Reported by Reuters, October 27, 2005.

<sup>28</sup> A State Department spokesman, in response to a press question at the State Department press briefing of March 20, 2002.

<sup>29</sup> The bill, S. 2092, was enacted as P.L. 108-235.

<sup>30</sup> Koo Chen-fu, Taiwan's chief negotiator, died on January 2, 2005, at age 87. In what many interpreted as a conciliatory gesture, the PRC sent two senior officials — Sun Yafu, deputy director of the PRC's official Taiwan Affairs Office, and Li Yafei, secretary general of the semi-official ARATS — to attend Koo's funeral in Taiwan.

trade has also increased dramatically over the past decade, so that China now has surpassed the United States as Taiwan's most important trading partner. According to one report, statistics show Taiwan's total bilateral trade with the PRC rose to \$61.64 billion in 2004 — a 33.1% increase over 2003.<sup>31</sup>

This increasing economic interconnectedness with the PRC has put pressure on Taiwan's DPP government to further accommodate the Taiwan business community by easing restrictions on direct travel and investment to the PRC. On November 18, 2005, Taiwan and China announced that for only the second time (the first being January 2005), direct cross-strait charter flights would be allowed for the duration of the upcoming Lunar New Year from January 20 - February 13, 2006. The arrangements for 2006 are less restrictive than those for 2005. In addition to expanding eligibility for the flights to all Taiwan residents, the number of flights have been expanded (to 36 from each side) as well as the number of destinations (adding Xiamen to last year's approved destinations of Beijing, Shanghai, and Guangzhou). But such cross-strait accommodations are worrisome to the DPP's pro-independence political base in Taiwan, who believe that further economic ties to the mainland will erode Taiwan's autonomy and lead to a "hollowing out" of Taiwan's industrial base.<sup>32</sup> Thus, each Taiwan government decision to facilitate economic links with the PRC represents an uneasy political compromise.

## **China's Growing Global Reach**

Many observers have begun to focus on the critical implications that China's economic growth and increasing international engagement could have for U.S. economic and strategic interests. To feed its voracious appetite for resources, capital, and technology, China has steadily and successfully sought trade agreements, oil and gas contracts, scientific and technological cooperation, and even multilateral security arrangements with countries both around its periphery and around the world. Dubbed the "charm offensive" by some observers, China's growing international economic engagement has gone hand-in-hand with expanding political influence. Although some believe that PRC officials appear more comfortable working with undemocratic or authoritarian governments, PRC outreach also has extended to key U.S. allies or to regions where U.S. dominance to date has been unparalleled and unquestioned. A brief survey of China's recent international engagement hints at the potential for increasing Sino-U.S. competition for resources, power, and influence around the world.

**Asia.** China's improved relationships with its regional neighbors are particularly visible. On December 14, 2005, China took part in the first East Asia Summit (EAS) — a fledgling grouping of 16 Asian countries, including the ten members of the Association of Southeast Asian Nations (ASEAN), Japan, South

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<sup>31</sup> According to the Foreign Board of Trade, cited by Agence-France Presse in *Taiwan News* online, March 3, 2005, [<http://www.etaiwannews.com>]. See also CRS Report RL31749, *Foreign Direct Investment in China*, by Dick Nanto and Radha Sinha.

<sup>32</sup> For instance, there are reportedly 300,000 Taiwan citizens now residing and working in Shanghai.

Korea, India, Australia, and New Zealand — but not including the United States.<sup>33</sup> Russia, in the form of President Putin, attended as an invited observer. According to a statement issued after the summit, the purpose of the new grouping is to permit “dialogue on broad strategic, political, and economic issues.”<sup>34</sup>

For decades prior to the mid-1990s, Sino-ASEAN relations were characterized by recurring clashes over territorial disputes, diplomatic deadlocks, and deep ASEAN concerns about China’s military ambitions and its regional economic competitiveness.<sup>35</sup> The 2005 EAS meeting represents the latest step in a trend of growing Sino-ASEAN regional cooperation. In addition to being part of an economic partnership in the ASEAN Plus Three (APT) grouping (including also Japan and South Korea, two U.S. military allies), China signed a free trade agreement with ASEAN in November 2004. Under the agreement, beginning July 1, 2005, all parties pledge to start lowering or cancelling tariffs on 7,000 kinds of items, with the goal of reaching full mutual free trade by 2010. Within ASEAN, China’s relations with Burma are unique, as Beijing has provided Rangoon with substantial military, economic, and infrastructure development assistance. According to a reported internal Department of Defense (DOD) document, Beijing is building naval bases in Burma that will give China its only access to the Indian Ocean.<sup>36</sup>

Outside the EAS framework, China has also improved its bilateral relationship with India, with which it fought several border wars in the 1960s, and with Central Asia. On January 24, 2005, China and India began a “strategic dialogue,” discussing terrorism, resource competition, and the U.S. role in Asia. During a visit to South Asia in early April 2005, PRC Premier Wen Jiabao alluded to his stop in India (on April 9) as his “most important agenda item” in 2005.<sup>37</sup> With the Central Asian countries of the former Soviet Union, China has pursued both economic and security arrangements through the Shanghai Cooperation Organization (SCO), founded in 2001.<sup>38</sup> Within the SCO context, China has cooperated on border enforcement, signed pipeline and rail link agreements, and conducted joint military maneuvers. China also has negotiated energy deals with Australia, another U.S. regional ally, to supply liquid natural gas to southern China, and is expecting this year the completion of a feasibility study relating to a Sino-Australian free trade agreement.

<sup>33</sup> First established in 1967, ASEAN in 2005 includes Brunei-Darassalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam. The United States maintains military alliances with the Philippines and Thailand, and has significant naval and air base arrangements with Singapore.

<sup>34</sup> *BBC News (international version)*, “East Asia stages inaugural summit,” December 14, 2005.

<sup>35</sup> For background, see CRS Report RL31183, *China’s Maritime Territorial Claims: Implications for U.S. Interests*, by Kerry Dumbaugh.

<sup>36</sup> The internal DOD report was cited by a *Washington Times* reporter. Gertz, Bill, “China Builds up Strategic Sea Lanes,” *Washington Times*, January 18, 2005.

<sup>37</sup> U.S. relations with India also have been improving in recent years.

<sup>38</sup> The SCO is a more recent expansion of the “Shanghai Five” formed in 1997. SCO members include China, Russia, Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan.

**Japan.** Japan, considered the most important American ally in Asia, is a notable exception to China's recent regional diplomatic achievements. As with other Asian countries, China's trading relations with Japan have expanded; in 2004, China (including Hong Kong) surpassed the United States as Japan's largest trading partner,<sup>39</sup> but the political relationship remains hampered by the residual resentments of Japan's conquest and occupation of China during World War II. China routinely protests Japanese Prime Minister Koizumi's annual visits to pay tribute to Japanese war dead at the Yasukuni Shinto Shrine, where war criminals are also enshrined. Since Koizumi first visited the shrine in 2001, China has used the issue to justify its refusal to engage in bilateral summity, except as part of multilateral meetings. Historical animosities also plagued China's loss to Japan in an August 2004 soccer match, when Chinese fans rioted and spat on the visiting Japanese team and its fans.

Furthermore, since 2004 China's growing economic competitiveness and expanding regional presence have helped exacerbate its relations with Tokyo. China and Japan competed ferociously for access to Siberian oil, with Japan emerging the major winner in a contract to have a main pipeline built to Japan, with a smaller branch running to China. As a result of China's exploration activities in the Chunxiao Gas Field, in waters where Japan and Taiwan also have territorial claims, Tokyo has begun its own exploration activities in and around the Senkakus. Tensions also have escalated over China's oil explorations in areas of the South China Sea over which Japan also claims sovereignty.

Japanese officials have cut Overseas Development Aid (ODA) to China by around half since 2000. In December 2004, Japan for the first time defined China as a potential security threat, and the following month Tokyo hosted a visit by Lee Teng-hui, a former president of Taiwan who is anathema to Beijing. These tensions appear to have brought Japan closer to U.S. policy positions in recent months. Japanese officials publicly have supported U.S. opposition to European Union (EU) plans to end an arms embargo to China, and on February 19, 2005, U.S. and Japanese officials issued a joint statement declaring a number of common strategic objectives for the first time in decades. These common objectives specifically included peaceful resolution of the Taiwan issue.

**Russia.** Energy resources and security issues also factor heavily into China's relations with Russia, where as noted above Beijing lost out to Japan in securing a monopoly pipeline supply from Siberian oil fields. Russia also meets regularly with PRC leaders through the forum of the Shanghai Cooperation Organization, where Russia is one of the six members. On February 2, 2005, Russia's President Vladimir Putin and visiting PRC State Councillor Tang Jiaxuan announced that their two countries would begin holding regular security consultations and at some point will hold joint military exercises.<sup>40</sup> According to Councillor Tang, China considers Russia its "main partner for strategic cooperation," and he emphasized that this was the first time that China had ever established national security consultations with a foreign government. Despite lingering historical tensions between the two, the PRC

<sup>39</sup> In 2004, China did \$213 billion in trade with Japan. Sato, Shigeru, "Cooperate with Japan, Don't Compete," *Dow Jones Chinese Financial Wire*, February 3, 2005.

<sup>40</sup> "Russia, China Tighten Security Links," *China Daily*, Feb. 3, 2005.

and Russia are widely thought to be seeking mutual common ground as a counterweight to U.S. global power.

**European Union.** In recent years, China has courted the European Union (EU) intensively, and Sino-EU contacts have broadened significantly as a result. On December 8, 2004, China and the EU held their 7<sup>th</sup> Annual EU-China Summit in The Hague, with Premier Wen Jiabao leading the PRC delegation. According to a statement at the time by European Commission President Jose Manuel Barroso, the EU considers China a “strategic partner” and has made developing Sino-EU ties “one of our top foreign policy objectives in the years to come.”<sup>41</sup>

Perhaps nothing illustrates China’s growing importance in Europe as much as the recent EU campaign to lift the arms embargo that it (along with the United States) has maintained against China since the Tiananmen Square crackdown in 1989. Momentum to lift the embargo appeared to accelerate early in 2005 despite a number of American efforts to derail it on the grounds that China has not made sufficient improvements in its human rights record. On February 2, 2005, the U.S. House of Representatives acted on a measure urging the EU to maintain the embargo, passing H.Res. 57 by a vote of 411-3. Senator Lugar, Chairman of the Senate Foreign Relations Committee, has been quoted as saying he would support curbs on sales of advanced military technology to EU countries unless the EU could give strong assurances that advanced technologies would not be diverted to China should the embargo be lifted.<sup>42</sup>

Until China’s passage of the anti-secession law on March 14, 2005, EU governments tended to dismiss American arguments that the PRC military, equipped with improved EU-provided defense technologies, could use those technologies to threaten Taiwan and U.S. forces in Asia. But these American arguments appeared strengthened by the PRC’s anti-secession law, and the EU’s campaign to lift the China arms embargo appears to have abated for the present.

**Middle East and Africa.** For years, China has sold missile technology and other sensitive materials to countries of security concern to the United States, such as Iran, Syria, Libya, and Iraq. More recently, China also is becoming a major energy player in the Middle East with some of these same countries. PRC negotiators, for instance, were able to sign significant oil deals with Iran in 2004, including a proposal that allows a Chinese company develop Iran’s Yadavarn oil field in exchange for China’s agreeing to buy Iranian liquified natural gas.<sup>43</sup> In addition, China’s trade with the six Gulf Cooperation Council (GCC) countries has steadily increased in the last few years, reaching \$20 billion in 2004 (although this is still

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<sup>41</sup> [[http://europa.eu.int/comm/external\\_relations/china/summit\\_1204/ip04\\_1440.htm](http://europa.eu.int/comm/external_relations/china/summit_1204/ip04_1440.htm)].

<sup>42</sup> In an interview with the *Financial Times*, February 21, 2005, p. 8.

<sup>43</sup> Lee, Don, “China Barrels Ahead in Oil Market...,” *Los Angeles Times*, November 14, 2004, p. C-1.

small by comparison with the United States, whose trade with Saudi Arabia alone in 2004 was \$26 billion).<sup>44</sup>

In 2000, China and African countries formed the China-Africa Cooperation Forum (CACF), proposing that the CACF meet every three years to seek mutual economic development and cooperation. Representatives from 45 of Africa's 55 countries attended the CACF's first Ministerial Conference in October of that same year. China has also targeted resource-rich African nations such as Sudan and Angola for energy-related development.<sup>45</sup> Senior Chinese leaders in 2004 visited oil-producing states, including Algeria and Gabon, and news reports early in 2005 alleged that a state-owned PRC energy company, China Shine, planned to drill exploratory wells in a Namibian concession that was once held by Occidental Petroleum.<sup>46</sup> China has also shown an interest in iron ore deposits in Liberia and Gabon. In addition to resource-related imperatives, some observers have suggested that there is a political dynamic to China's push into Africa, as 6 of the 24 countries that still maintain official diplomatic relations with Taiwan are on the African continent.<sup>47</sup>

**Western Hemisphere.**<sup>48</sup> There is also a political dynamic in China's expanding economic and trade relationships with Latin America and the Caribbean, where another 12 countries still maintain official diplomatic relations with Taiwan.<sup>49</sup> In addition, China's growing presence in the region also may have political and economic consequences for the United States. In September 2004, China sent a "special police" contingent to Haiti — one of Taiwan's official relationships — marking Beijing's first deployment of forces ever in the Western Hemisphere. A primary focus in the U.S.-Latin America debate over the U.S.-Central America Free Trade Agreement (CAFTA) is how to keep Latin American textile manufacturing in the region viable in the face of the expected surge in Chinese textile industry exports

<sup>44</sup> The six GCC countries are the United Arab Emirates (UAE), Saudi Arabia, Bahrain, Kuwait, Qatar, and Oman. Statistics for two-way U.S.-Saudi Arabia trade are from the U.S. Census Bureau, *Foreign Trade Statistics*.

<sup>45</sup> China objected to the U.N. vote threatening oil sanctions against Sudan unless it ceased atrocities in the Darfur region. Ultimately, the PRC abstained on the September 19, 2004 vote, but promised to veto any future sanctions.

<sup>46</sup> Boxell, James, "Circle Oil in Dollars 50m Africa Drilling Deal with Chinese Group," *Financial Times* (London edition), January 28, 2005, p. 25.

<sup>47</sup> In November 2005, Taiwan maintains official relations with Burkina Faso, Chad, the Gambia, Malawi, Sao Tome and Principe, and Swaziland. Formerly, Senegal was one of Taiwan's official relationships; it announced on October 25, 2005, that it was severing official relations with Taiwan.

<sup>48</sup> See CRS Report RS22119, *China's Growing Interest in Latin America*, by Kerry Dumbaugh.

<sup>49</sup> Taiwan's official relations in the region include Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, and St. Vincent and the Grenadines. On January 20, 2005, Grenada formally ended its diplomatic relations with Taiwan and established diplomatic relations with the PRC.

with the end of the Multi-Fiber Arrangement on December 31, 2004. On January 25, 2005, Chile became the first Latin American country to hold bilateral negotiations with China to craft a Sino-Chilean Free Trade Agreement. The two governments appear to have made substantial progress in their negotiations, and a fourth round is expected in Santiago in August 2005. Beijing officials hope to ink a Sino-Chile Free Trade Agreement before the end of the year, and hope it can become a model for similar agreements with other Latin American countries.<sup>50</sup>

Energy concerns also play a role in China's Latin-American diplomacy, particularly in Venezuela, which now accounts for almost 15% of U.S. oil imports, and in Brazil, with whom China announced a \$10 billion energy deal in November 2004.<sup>51</sup> As a consequence of Venezuelan President Hugo Chavez's visit to Beijing in December 2004 and PRC Vice-President Zeng Qinghong's visit to Venezuela in January 2005, the two countries reportedly signed a series of agreements that committed the China National Petroleum Corporation to spend over \$400 million to develop Venezuelan oil and gas reserves.<sup>52</sup> Given the current poor state of U.S.-Venezuelan relations under the Chavez government, some American observers worry that Venezuelan energy agreements with China ultimately may serve to divert oil from the United States.

Chinese economic and energy concerns extend also to Canada. On January 20, 2005, at the conclusion of Canadian Prime Minister Paul Martin's visit to China, the two governments signed a series of agreements to promote international cooperation on a range of issues and to make energy issues in particular — including gas, nuclear, clean energy, and oil sources, primarily massive "oil sands" in Alberta — into "priority areas" of mutual cooperation. Energy discussions are to be maintained through the Canada-China Joint Working Group on Energy Cooperation, formed under a 2001 memorandum of understanding. A major Canadian oil-pipeline company, Enbridge, is said to be planning a major (\$2.2 billion) pipeline project to transport oil from Alberta's oil-sands deposits to the west coast for shipment to wider markets including China.<sup>53</sup>

## Economic Issues

The PRC is now the third-largest U.S. trading partner, with total U.S.-China trade in 2004 estimated at \$232 billion. Ongoing issues in U.S.-China economic relations include the substantial and growing U.S. trade deficit with China (\$162 billion in 2004), repeated PRC failures to protect U.S. intellectual property rights,

<sup>50</sup> Jiang Wei, "China-Chile FTA Talks Smooth," *China Daily*, January 31, 2005, online at [[http://www.bilaterals.org/article.php3?id\\_article=1237](http://www.bilaterals.org/article.php3?id_article=1237)].

<sup>51</sup> The PRC is also investing in energy deals in Ecuador and in offshore projects in Argentina, according to the *New York Times*, "China's Oil Diplomacy in Latin America," March 1, 2005, p. 6.

<sup>52</sup> Bajpaee, Chietigi "China's Quest for Energy Security," *Power and Interest News Report*, February 25, 2005, online at [<http://www.pinr.com/>].

<sup>53</sup> Mortished, Carl, "Chinese Chase Canadian Oil," *The Times* (London), March 5, 2005, p. 36

and the PRC's continuing restrictive trade practices, such as its refusal to date to float its currency.<sup>54</sup> In addition, some policymakers have focused recent attention on efforts by PRC companies to buy American assets. (For further information, see CRS Issue Brief IB91121, *U.S.-China Trade Issues*, by Wayne Morrison.)

**Intellectual Property Rights.** China's lack of protection for intellectual property rights (IPR) has become one of the most important issues in U.S.-China bilateral trade. According to calculations from U.S. industry sources, IPR piracy has cost U.S. firms \$2.5 billion in lost sales, and the IPR piracy-rate in China for U.S. products is estimated at around 90%.<sup>55</sup> U.S. officials routinely have urged Beijing to crack down on IPR piracy, and Secretary of Commerce Don Evans stressed in his last official visit to China in January 2005 that China needed to do better at IPR protection.

**Currency Valuation.** Another ongoing concern that arose in the 108<sup>th</sup> Congress involved the PRC's decision to keep the value of its currency low with respect to the dollar, and indirectly with the yen and euro. Since 1994, the PRC has pegged its currency, the renminbi (RMB), to the U.S. dollar at a rate of about 8.3 RMB to the dollar. In 2003, many U.S. policymakers concluded that this RMB/dollar peg kept the PRC's currency artificially undervalued, making PRC exports artificially cheap and making it harder for U.S. producers to compete. U.S. critics of the PRC's currency peg charged that the PRC unfairly manipulated its currency, and they urged Beijing either to raise the RMB's value or to make it freely convertible subject to market forces. Members of the 108<sup>th</sup> Congress introduced multiple bills (such as H.R. 3058) to require the U.S. Secretary of the Treasury to analyze the PRC's exchange rate policies and, depending on the results of that analysis, to impose tariffs on PRC products to offset the price advantage the PRC is believed to gain from its currency policies. On December 3, 2004, the U.S. Treasury Department issued its biannual report on global foreign exchange, reporting that no major U.S. trading partner — most notably the PRC — had met the technical definition of currency manipulation.

## National Security Issues

**Annual Report on China's Military Power.** On July 19, 2005, the Pentagon released its annual, congressionally-mandated report on China's Military Power. (Appendix II of this paper contains a list, legislative authority, and text links for selected mandated U.S. government reports on China, including the report on China's Military Power.) The DOD report, normally submitted late, had been expected for weeks (its due date is March 1 annually), and it reportedly was delayed further this year because of bureaucratic disagreement about its conclusions. The 2005 report appears to reflect a more alarmist view about military trends in China than did earlier reports. It concludes that China is greatly improving its military,

<sup>54</sup> See CRS Issue Brief IB91121, *China-U.S. Trade Issues*, by Wayne Morrison, for further details.

<sup>55</sup> International Intellectual Property Alliance, *2004 Special 301 Report: People's Republic of China*, February 2005, cited in CRS Issue Brief IB91121, *China-U.S. Trade Issues*, by Wayne Morrison.

including the number and capabilities of its nuclear forces, and that this build-up poses a long-term threat to Taiwan and ultimately to the U.S. military presence in Asia. The tone of the report is expected to prompt renewed congressional debate over what China's military expansion means for U.S. interests and what should be the proper U.S. response.

**North Korea.** After over a year of stalemate and months of intensive diplomacy behind the scenes, Six-Party Talks on North Korea's nuclear program began again in Beijing with two meetings held in July-August 2005 and September 2005. With both the North Korean and U.S. sides appearing to have moderated their agendas, the talks resulted in the adoption of the first written agreement arising from the talks — a joint statement of principles drafted with heavy Chinese involvement. In the joint statement, the North Koreans agree to dismantle their nuclear program, and the United States and the four other participants agree to discuss providing North Korea with a light water reactor "at an appropriate time." But in the days following the release of the joint statement, it became evident that the United States and the North Koreans have different views about the proper sequencing and timing of these two events. Further talks are scheduled in Beijing for November 2005.<sup>56</sup>

The road to the North Korean nuclear crisis began in October 2002, when Pyongyang told visiting U.S. officials that it was conducting a uranium enrichment program in violation of its pledges under the 1994 U.S.-North Korean Agreed Framework. The crisis continued to escalate as the United States, Japan, South Korea, and other countries suspended energy assistance to North Korea and the latter withdrew from the Nuclear Non-Proliferation Treaty and restarted its nuclear reactor at Yongbyon. The Bush Administration rejected North Korean demands for bilateral talks to resolve the crisis, and instead consented only to six-party talks involving North and South Korea, the United States, the PRC, Japan, and Russia — still the venue for nuclear discussions with North Korea.

As North Korea's sole military ally, the PRC could be drawn into any armed conflict involving North Korea — meaning the possibility of U.S.-China military confrontation, an ally of South Korea. In addition, since the PRC is North Korea's principal trade partner, any decision by the international community to impose sweeping economic sanctions against North Korea would appear to require PRC support. Lack of that support would undermine any sanctions effort and also damage U.S.-China relations. By the same token, collapse of the fragile North Korean regime could have equally unhappy consequences for the PRC, leading to floods of North Korean refugees into China and to the possible advance of U.S. military forces from the South Korean side of the demilitarized zone to the PRC border.

PRC officials have repeatedly emphasized that China supports a non-nuclear Korean peninsula. This support is thought to be genuine, since an unpredictable North Korea armed with nuclear weapons could have unpleasant consequences for Beijing — such as the creation of nuclear weapons programs in currently non-nuclear neighbors like Taiwan, Japan, and South Korea, or an accelerated U.S. commitment

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<sup>56</sup> See CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations — Issues for Congress*, by Larry Niksch.

for a regional missile defense program, to name only two. But Beijing has stopped short of promising to put further pressure on North Korea, and in fact continues to prop up the North Korean regime with supplies of food and fuel and to advocate bilateral U.S.-North Korean dialogue.<sup>57</sup>

**Weapons Proliferation.** For many years, U.S. officials and Members of Congress have been concerned about the PRC's track record of weapons sales, technology transfers, and nuclear energy assistance to certain countries in the Middle East and South Asia, particularly to Iran and Pakistan. While some U.S. officials have grown more confident that the PRC is changing its proliferation policies, congressional and other critics charge that such confidence is misplaced.<sup>58</sup> They point out that for years, reputable sources have reported China to be selling ballistic missiles and technology for weapons of mass destruction (WMD) in the international market, primarily in the Middle East.<sup>59</sup> Although these allegations have always created problems in Sino-U.S. relations, they have taken on new and potentially significant implications given the Administration's emphasis on controlling the spread of weapons of mass destruction as well as WMD programs as well as later disclosures that both Iran and North Korea are actively pursuing nuclear weapons programs. The PRC has had close relationships with all three countries in the past, including sales of military equipment that could threaten U.S. forces in the region and missiles that could enhance a nuclear weapons capability.<sup>60</sup>

**Military Contacts.** Once one of the stronger components of the relationship, U.S.-China military relations have never fully recovered after they were suspended following the 1989 Tiananmen Square crackdown. Nevertheless, both countries cautiously resumed military contacts during the 108<sup>th</sup> Congress, although efforts to reenergize military ties met with repeated setbacks. In January 2005, several news accounts tentatively reported that U.S. Secretary of Defense Donald Rumsfeld is considering making his first trip as Secretary to China later this year.<sup>61</sup> No further details have been forthcoming. (See appendix at the end of this report for a list of recent U.S.-China official talks.)

<sup>57</sup> "U.S. Rebuffs Direct Talks with North Korea," *Korea Times*, March 9, 2005; "China Envoy Heads to U.S. for North Korea Nuclear Talks," *Reuters*, March 8, 2005.

<sup>58</sup> As reasons for such confidence, some point to the past decade, when the PRC has: 1992 — promised to abide by the Missile Technology Control Regime (MTCR) and acceded to the Nuclear Non-Proliferation Treaty (NPT); 1993 — signed the Chemical Weapons Convention (CWC); 1996 — signed the Comprehensive Test Ban Treaty; and 1997 — joined the Zangger Committee of NPT exporters.

<sup>59</sup> For details, see CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, by Shirley Kan.

<sup>60</sup> Iran, for instance, has purchased from the PRC small numbers of SA-2 surface-to-air missiles, F-7 combat aircraft, fast-attack patrol boats, and C-802 anti-ship cruise missiles. Some Members of Congress have questioned whether Iran's possession of C-802s violates the Iran-Iraq Arms Non-Proliferation Act of 1992 (50 U.S.C. § 1701), which requires sanctions on countries that sell destabilizing weapons to Iran or Iraq.

<sup>61</sup> See CRS Report RL32496, *U.S.-China Military Contacts: Issues for Congress*, by Shirley Kan.

## Human Rights

The Bush Administration generally has favored selective, intense pressure on individual human rights cases and on rule of law rather than the broader approach adopted by previous American administrations. The PRC government periodically has acceded to this White House pressure and released early from prison political dissidents — usually citing health reasons and often immediately preceding visits to China by senior Bush Administration officials. On March 4, 2004, for instance, the PRC released on medical parole one of its best-known political prisoners, Wang Youcui, a co-founder of the short-lived China Democracy Party. Days earlier, the PRC released an imprisoned Tibetan nun, and on March 14, 2005, released Uighur businesswoman Rebiya Kadeer, arrested in 1999 for “revealing state secrets.” The same day, the U.S. government announced that it would not introduce a resolution criticizing China’s human rights record at the 61<sup>st</sup> Session of the U.N. Commission on Human Rights in Geneva from March 14 to April 22, 2005.

There were no such symbolic gestures before President Bush’s November 2005 visit to China. Moreover, President Bush, during his Asia visit, publicly adopted a different human rights approach, making universal freedom, religious freedom, and democratization appear to be the centerpiece of U.S. policy in Asia. There has been little sign that the President’s November remarks or the U.S. position on human rights has affected PRC policies, although there is growing evidence of increasing social demands within China for greater accountability, transparency, and responsiveness in government.

On December 2, 2005, the first U.N. torture investigator allowed to visit China, Manfred Nowak, stated his conclusion that while torture was on the decline (China outlawed it in 1996), it was still a widespread problem in Chinese prisons. Beginning November 21, 2005, Nowak spent two weeks visiting Chinese prisons and speaking to detainees. Nowak will present his findings at the 2006 meeting of the U.N. Commission on Human Rights.

**New Internet and Media Restrictions.** The explosive growth of the Internet, cell phones, and text messaging in China has helped make these relatively unregulated electronic sources the dominant source of information for Chinese citizens. Beijing has increasingly viewed these new information sources as potential threats to the central government’s ability to control and shape information flows, and for several years PRC leaders have attempted to restrict and control the scope of Web content and access. On September 25, 2005, China imposed new regulations designed to further limit the type of electronic news and opinion pieces available to the Web-savvy in China.<sup>62</sup> Among other things, the regulations prohibits major search engines from posting their own independent commentary on news stories, stipulating that only opinion pieces provided by state-controlled media may be posted; requires internet service providers to record the content, times, and Internet addresses of news information that is published and to provide this information to

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<sup>62</sup> “‘Full Text’ of PRC Internet News Information Service Management Rules,” jointly promulgated by the PRC State Council Information Office and the Ministry of Information Industry, September 25, 2005, *Beijing Xinhua Wang*, in FBIS, CPP2005926038001.

authorities upon inquiry; and in vague terms prohibits certain kinds of content from being posted — such as content that “undermines state policy” or “disseminates rumors [and] disturbs social order.”<sup>63</sup> The new regulations are backed by penalties, including fines, termination of Internet access, and possible imprisonment.

**Religious Freedom.** In recent years, the PRC has continued to crack down on unauthorized religious groups and to restrict the freedoms of ethnic communities that seek greater religious autonomy. Much of this repression focuses on what PRC officials have classified as illegal religious “cults” such as the Falun Gong and the Three Grades of Servants Church. Reports about religious freedom in China suggest that state persecution of some religious and spiritual groups will likely continue as long as the Chinese Communist Party (CCP) perceives these groups to be threatening to its political control. However, religions in the PRC have also attracted increasing numbers of adherents as well.

In the China section of its most recent annual *International Religious Freedom Report*, released September 15, 2004, the U.S. Department of State judged China’s record on religious freedom to be poor and substantially the same as during recent years. The Secretary of State again designated China as a country of particular concern in 2003 — a designation the PRC has earned each year since 1999. The State Administration for Religious Affairs, SARA, (formerly known as the Religious Affairs Bureau, or RAB) continues to require churches to register with the government. Churches that are unregistered — so-called “house churches” — continue to be technically illegal and often repressed by the government. As in the past, however, treatment of unregistered churches varies widely from locality to locality, with some local officials highly repressive and others surprisingly tolerant.

Some suggest that in the 21<sup>st</sup> century the Communist Party has sought ways to recognize religion as an integral part of Chinese society and to support religious practices that it deems to perform positive social and political functions. At a national work conference on religion in 2001, for instance, then-Party Secretary Jiang Zemin stressed religion’s positive role in society. On the other hand, by 2004 it appeared that Party officials had grown more concerned about religion’s “destabilizing” effects. In January 2004, SARA held a national work conference on religion that instead emphasized what it saw as negative and destabilizing aspects of religious observance, including cults and the growing circulation of foreign religious materials. As they have in the past, Communist Party officials continue now to stress that religious belief is incompatible with Party membership.

**Tibet.** The political and cultural status of Tibet remains a difficult issue in U.S.-China relations and a matter of debate among U.S. policymakers. Controversy continues over Tibet’s current political status as part of China, the role of the Dalai Lama and his Tibetan government-in-exile, and the impact of Chinese control on Tibetan culture and religious traditions. The U.S. government recognizes Tibet as part of China and has always done so, although some dispute the historical consistency of this U.S. position. But the Dalai Lama, Tibet’s exiled spiritual leader, has long had strong supporters in the U.S. Congress who have continued to pressure

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<sup>63</sup> Ibid., Article 19.

the White House to protect Tibetan culture and give Tibet greater status in U.S. law. It was largely because of this congressional pressure that in 1997, U.S. officials created the position of Special Coordinator for Tibetan issues, tasked with the specific mission of helping to promote talks between the Dalai Lama and Beijing. The current Special Coordinator — Paula Dobriansky, Under Secretary of State for Global Affairs — is the highest-ranking U.S. official to have held this position.<sup>64</sup>

Although dialogue between the PRC and the Tibetan exile community remains officially stalled, hopes for renewed momentum were raised by a number of unusual developments in 2002-2003 that are outside the scope of what has come to be expected of Beijing's relations with the Dalai Lama's representatives. In 2002, the Dalai Lama's older brother, Gyalo Thondup, accepted a PRC invitation to spend several weeks in Tibet on a private visit. On at least three occasions since then, the PRC government invited to China and to Lhasa (Tibet's capital) delegations from the Tibetan community led by the Dalai Lama's special envoy in the United States, Lodi Gyari. Further contacts and developments along these lines would reinforce the view that a quiet dialogue and perhaps compromise may be underway.

**Xinjiang's Ethnic Muslims.** For years, the PRC government also has maintained a repressive crackdown against Tibetans and Muslims, particularly against Uighur "separatists" — those in favor of independence from China — in the Xinjiang-Uighur Autonomous Region. Although U.S. officials warned after September 11, 2001 that the global anti-terror campaign should not be used to persecute Uighurs or other minorities with political grievances against Beijing, some believe that the U.S. government made a concession to the PRC on August 26, 2002, when it announced that it was placing one small group in China, the East Turkestan Islamic Movement, on the U.S. list of terrorist groups.

U.S. policies on Uighurs and on terrorism faced a unique test during the 108<sup>th</sup> Congress, when it became known that approximately 22 Uighur Muslims were being held by U.S. forces at Guantanamo Bay after having been apprehended during the U.S. strikes against the Taliban in Afghanistan. By May of 2004, international human rights groups were reporting their concerns about the planned release of Uighur prisoners that U.S. forces had decided were of "no intelligence value." These prisoners, they feared, if repatriated to China, would be executed or imprisoned as terrorists.<sup>65</sup> In October 2004, in an interview with the *Far Eastern Economic Review*, Secretary of State Colin Powell said that U.S. officials were still reviewing the status of the Uighur prisoners because of U.S. fears that returning them to possible persecution in China would "be inconsistent ... with our obligations to comply with

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<sup>64</sup> For background and details, see CRS Report RL30983, *Tibet, China, and the 107<sup>th</sup> Congress: Issues for U.S. Policy*, by Kerry Dumbaugh.

<sup>65</sup> James, Ian, "Guantanamo Prisoners from China's Muslim Northwest Face Danger If Returned Home, Human Rights Groups Warn," *Associated Press Newswires*, May 28, 2004.

international law and consistent with [the] Geneva Convention...”<sup>66</sup> Later press reports said that a number of U.S. allies had refused requests to accept the prisoners.<sup>67</sup>

**Family Planning Policies.** Because of allegations of forced abortions and sterilizations in PRC family planning programs, direct and indirect U.S. funding for coercive family planning practices is prohibited in provisions of several U.S. laws. In addition, legislation in recent years has expanded these restrictions to include U.S. funding for international and multilateral family planning programs, such as the U.N. Population Fund (UNFPA), that have programs in China. In the 108<sup>th</sup> Congress, section 560(d) of H.R. 4818 (P.L. 108-447), the Consolidated Appropriations Act, 2005, prohibited U.S. funds from being made available to UNFPA for a country program in China.

While the PRC has maintained its restrictive and at times coercive “one-child” policy for several decades, there are growing indications that the government may be re-thinking this policy. Early in 2004, China’s new leadership appointed a task force to study the country’s demographic trends and their implications for economic development. In October 2004, reports surfaced that Beijing was considering at least one proposal to eventually scrap the one-child policy because of currently low PRC birth rates and the economic implications this has for supporting China’s huge aging population. On January 6, 2005, the director of China’s National Population and Family Planning Commission stated that the government intended to modify criminal law to make it illegal to selectively identify and abort female fetuses.<sup>68</sup> And on January 21, 2005, an official from the PRC Ministry of Education stated that the government would be lifting the long-standing ban on marriage and childbearing for college and graduate students.

**Social Stability.** The far-reaching economic changes the PRC continues to undergo have led to increasing disgruntlement among a number of social groups. Peasants and farmers in rapidly developing parts of China are under heavy tax burdens and falling farther behind their urban contemporaries in income. Some have had their farmland confiscated by local government and Party officials. Officials then sell the confiscated land for development, often reportedly offering little or no compensation to the peasants from which the land was seized, resulting in sometimes sizable protests. One widely publicized case occurred on December 6, 2005, in the southern Chinese city of Dongzhou (Shanwei), when paramilitary forces opened fire on villagers demonstrating against the confiscation of their land for the construction of a new power plant. An as yet uncertain number of villagers were killed.

<sup>66</sup> Heibert, Murray, and Susan Lawrence, in an interview with Colin Powell, *Far Eastern Economic Review*, cited in Political Transcripts by Federal Document Clearing House, October 19, 2004.

<sup>67</sup> Sevastopulo, Demetri, “U.S. Fails to Find Countries to Take Uighurs,” *Financial Times*, October 28, 2004, p. 5.

<sup>68</sup> PRC statistics show that nearly 120 boys are born for every 100 girls — a gender ratio suggesting selective abortion of female fetuses. The “natural” male-female gender ratio is about 105-100, according to a United Nations estimate. “Analysts View Problems with Huge PRC Gender Gap,” *South China Morning Post*, January 7, 2005.

In an effort to address rising rural complaints, the government early in 2005 proposed a new measure — the “2005 Number 1 Document” — to reduce taxes on rural peasants, increase farm subsidies, and address the widening income gap between urban and rural residents. Rising labor unrest, particularly in northern and interior cities, is another particularly troubling issue for Beijing, a regime founded on communist-inspired notions of a workers’ paradise. Increasing labor unrest also has placed greater pressure on the authority and credibility of the All-China Federation of Trade Unions (ACFTU), China’s only legal labor organization.<sup>69</sup>

## Hong Kong Governance

On June 21, 2005, following his selection to the post by the 800-member Hong Kong Election Committee, Donald Tsang was formally appointed Chief Executive of Hong Kong by the PRC State Council. He replaced Hong Kong’s unpopular former Chief Executive, Tung Chee-hwa, who submitted his resignation on March 10, 2005, two years before his term was to expire. Controversy has grown steadily in Hong Kong since late summer 2003, when massive peaceful demonstrations, involving tens of thousands of Hong Kong people, began to be held in opposition to “anti-sedition” laws proposed by Mr. Tung and in favor of more rapid progress toward democratization — such as electing Hong Kong’s Chief Executive in 2007 and the Hong Kong legislature in 2008 by universal suffrage. Beijing dealt these democratic aspirations a stinging setback in April 2004 by ruling that universal suffrage not only was not to be allowed as early as 2007, but that Beijing, and not Hong Kong, would determine the proper pace for democratic reforms. Critics maintained that the Beijing decisions contravened provisions in Hong Kong’s Basic Law leaving decisions on democratic development up to Hong Kong people themselves.

While a pragmatist who is far more popular than his predecessor, the new Chief Executive, Donald Tsang, also has been criticized by democracy activists. As Hong Kong’s Chief Secretary, Mr. Tsang had chaired a Tung-appointed task force charged with consulting Beijing to devise a plan for democratic reforms in Hong Kong in 2007 and 2008. The task force’s final recommendations, submitted in October 2005, provide for only marginal changes to electoral procedures in 2007 and 2008, stopping far short of expanding the franchise in Hong Kong in this decade or for the foreseeable future. The public response to the recommendations has been one of disappointment. On December 4, 2005, opponents of the recommendations held another large public protest in Hong Kong in favor of greater political change. Executive Tsang has defended the recommendations as being the most Hong Kong can achieve at the moment given Beijing’s objections to more rapid democratization. The Legislative Council is set to vote on the recommendations package on December 21, 2005, with a two-thirds vote required for passage. A negative vote presumably would leave the status quo in place and likely would create political complications for PRC leaders and for Beijing — Hong Kong relations.

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<sup>69</sup> The ACFTU is controlled by the Communist Party. For background and further details, see CRS Report RL31164, *China: Labor Conditions and Unrest*, by Thomas Lum.

Beijing's decisions on Hong Kong have particular relevance for Taiwan, since Beijing has held out the "one country, two systems" approach for Hong Kong as a model for Taiwan's eventual reunification with mainland China. U.S. policy toward Hong Kong is set out in the U.S.-Hong Kong Policy Act of 1992 (P.L. 102-383). In addition to requiring annual U.S. government reports on Hong Kong's conditions through 2006, this act allows the United States to treat Hong Kong more leniently than it treats the PRC on the condition that Hong Kong remains autonomous. Under the act, the President has the power to halt existing agreements with Hong Kong or take other steps if he determines that Beijing is interfering unduly in Hong Kong's affairs.<sup>70</sup>

## **U.S. Policy Implications**

In the past year, some U.S. observers have become increasingly concerned about China's growing economic and political reach in the world — often referred to as "China's rise" — and what it means for global U.S. economic and political interests, U.S.-China relations, and concerns for Taiwan's security. Some in this debate believe China's rise is a malign threat that needs to be thwarted; others believe that it is an inevitable phenomenon that needs to be managed. The 109<sup>th</sup> Congress is increasingly faced with issues involving this emerging debate and whether U.S. interests would best be served by accommodating China's rise or containing it.

According to one school of thought, China's economic and political rise in the world is inevitable and needs to be accommodated and managed. In this view, as China becomes more economically interdependent with the international community, it will have a greater stake in pursuing stable international economic relationships. Growing wealth in the PRC is likely to encourage Chinese society to move in directions that will develop a materially better-off, more educated, and cosmopolitan populace. Over time, this population could be expected to press its government for greater political pluralism and democracy — two key U.S. objectives. Therefore, from this perspective, U.S. policy should seek to work more closely with the PRC, not only to encourage these positive long-term trends, but to seek ways to mutually benefit by cooperating on important global issues such as alternative energy sources, climate change, and scientific and medical advancements. Ultimately, some proponents of accommodation say, the United States simply will have to make room for the economic and political appetites of the superpower that China is likely to become. Viewing the PRC as a "threat" or attempting to contain it, these proponents say, could produce disastrous policy consequences for U.S. interests. In addition to possible military conflict with the PRC, they assert, these consequences could include a breakdown in PRC governance, a fragmentation of the country itself, the creation

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<sup>70</sup> A specific intention of the Hong Kong Policy Act was to permit the U.S. government to treat Hong Kong differently from the way it treats the rest of China in U.S. law. Thus, the United States has an extradition treaty with Hong Kong but not with China; maintains a liberalized export control regime with Hong Kong but a restrictive one with China; and gives Hong Kong permanent most-favored-nation (MFN) trade status — or "normal trade relations" as it is now known — but gave that status to China separately upon its accession to the WTO.

of greater Chinese nationalism with a strong anti-American bias, and an increasingly isolated United States that the international community may see as out of step with global trends.

Other proponents of the “inevitability” of China’s rise stress the extreme competitive challenges of China’s growing power which, even if benign, pose potentially huge consequences for U.S. global interests. Beijing officials, say this group, view the world as a state-centered, competitive environment where power is respected, and PRC leaders are determined to use all means at their disposal to increase their nation’s wealth, power, and influence. A militarily muscular China with substantial international economic ties will be able to wield considerable political power that could prompt U.S. friends and allies to make different choices, eroding U.S. influence around the world. The EU’s inclination to lift its arms embargo against China despite strong U.S. objections is cited as an example of this trend. The United States, they argue, should develop a comprehensive strategic plan in order to counter China’s growing power by strengthen its existing regional alliances and make new ones, expand overseas investments, sharpen American global competitiveness, and maintain a robust military presence in Asia and elsewhere as a counterweight to growing PRC power and influence.

Others in the American policy debate see less benevolent intentions in China’s growing power. PRC leaders, they argue, may be portraying their growth as a “peaceful rise” with no harmful consequences, but actually they are biding their time, simply conforming to many international norms as a strategy while China is still weak. In reality, these proponents say, Beijing seeks at least to erode and at best to supplant U.S. international power and influence. In conducting their international relations, they maintain, Chinese leaders seek to cause rifts in U.S. alliances, create economic interdependence with U.S. friends, and arm U.S. enemies. Despite the statements of support for the U.S. anti-terrorism campaign, according to this view, the PRC’s repeated violations of its non-proliferation commitments have actually contributed to strengthening nations that harbor global terrorists. Furthermore, they maintain that the PRC under its current repressive form of government is inherently a threat to U.S. interests, and that the Chinese political system needs to change dramatically before the United States has any real hope of reaching a constructive relationship with Beijing. From this perspective, U.S. policy should focus on mechanisms to change the PRC from within while remaining vigilant and attempting to contain PRC foreign policy actions and economic relationships around the world where these threaten U.S. interests.

## **Major Legislation<sup>71</sup>**

### **H.Res. 57 (Hyde)**

Urging the European Union to maintain its arms embargo on the People’s Republic of China. Introduced on February 1, 2005; passed House on February 2, 2005, by a vote of 411-3.

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<sup>71</sup> For legislative action during the 108<sup>th</sup> Congress, see CRS Report RL31815, *China-U.S. Relations During the 108<sup>th</sup> Congress*, by Kerry Dumbaugh

**H.Res. 344 (Pombo)**

A resolution urging the President to immediately review any CNOOC agreement to buy the American energy company Unocal. Introduced June 29, 2005, referred to House International Relations and Financial Services Committees. Considered under suspension on June 30, 2005, passed by a vote of 398-15.

**H.Con.Res. 83 (Smith)**

Urging the United States to introduce a measure at the 61<sup>st</sup> U.N. Conference on Human Rights calling on China to end its human rights abuses. Introduced March 3, 2005, and referred to the House Committee on International Relations. Mark-up held on March 9, 2005.

**H.Con.Res. 98 (Hyde)**

Expressing the “grave concern” of Congress about China’s passage of an anti-secession law aimed at Taiwan. Introduced March 15, 2005. The measure passed on March 16, 2005, by a vote of 424-4. It was referred to the Senate Foreign Relations Committee on March 17, 2005.

**H.R. 728 (Sanders)**

To withdraw normal trade relations (NTR — formerly known as most-favored-nation status, or MFN) from the PRC. Introduced February 9, 2005, referred to House Ways and Means Committee, to the Subcommittee on Trade (February 25, 2005).

**H.R. 1498 (Ryan)**

Chinese Currency Act of 2005. To clarify that PRC currency manipulation is actionable under U.S. countervailing duty laws and product-specific safeguards. Introduced on April 21, 2005, and referred to House Ways and Means Committee and House Armed Services Committee. Executive comment was requested from DOD on April 21, 2005.

**H.R. 1815 (Hunter) (P.L. 109-163)**

Authorizing appropriations for the Department of Defense for FY2006. Introduced April 26, 2005. H.Rept. 109-89. The final Act was the result of a conference. Sec. 535 provides incentives to cadets and midshipmen to study key languages, including Chinese; Sec. 1211 prohibits the Secretary of Defense from procuring any goods or services from a “Communist Chinese military company,” except on a waiver for national security reasons; Sec.1234 states the sense of Congress that the White House should “quickly” present to Congress a comprehensive strategy to deal with China’s economic, diplomatic, and military rise, including specific mention of what areas such a strategy should address. In conference, the House receded on several key measures in its bill: on a measure to mandate “at least” one class field study trip annually to both Taiwan and the People’s Republic of China (PRC) by military education classes of the National Defense University; on a measure to require regular senior U.S. military exchanges with Taiwan military officials; and on a measure to prohibit the Secretary of Defense from procuring goods or services from any foreign person who knowingly sells to the PRC items on the U.S. munitions list. **House action:** After Committee and Subcommittee mark-ups, reported (amended) by the House Armed Services Committee on May 20, 2005. Referred to the House on May 25, 2005, and passed by a vote of 390-39.

Referred to the Senate Armed Services Committee on June 6, 2005. **Senate action:** On November 15, 2005, the Committee was discharged, the Senate considered the bill under unanimous consent, and the Senate passed the bill after incorporating the language of S. 1042. **Conference action:** Conferees filed a conference report on December 12, 2005 (H.Rept. 109-360), and the House passed it on December 19, 2005 (374-41). The Senate agreed to the Report by voice vote on December 21, 2005, and the President signed the bill into law on January 1, 2006, with a clarifying statement ([<http://www.whitehouse.gov/news/releases/2006/01/20060106-12.html>]).

#### **H.R. 2601 (C. Smith)**

The State Department Authorization bill. Title IX consists of the East Asia Security Act of 2005, a bill to impose trade sanctions on persons, companies, and governments (specifically the European Union, but also Israel and Russia) that sell weapons to China in violation of agreed-upon export restrictions. The bill also contains annual reporting requirements on EU weapons sales to China and on foreign governments participating in cooperative defense projects with the United States. The East Asian Security Act originally was H.R. 3100, introduced by Representatives Hyde and Lantos on June 29, 2005 (H.Rept. 109-165). After mark-up by the House International Relations Committee on June 30, 2005, H.R. 3100 was considered by the House on July 14, 2005, on the suspension calendar. It failed to achieve the necessary 2/3 vote by a vote of 215-203, reportedly because of some Member's concerns that it would be unfairly punitive on U.S. defense contractors. Responding to these objections, the bill's sponsors amended the bill to apply sanctions on U.S. companies only if they knowingly sold items to China for military use. The amended version was then made in order as an amendment to H.R. 2601, which the House then passed on July 20, 2005, by a vote of 351-78. The bill was referred to the Senate on July 22, 2005.

#### **H.R. 3057 (Kolbe) (P.L. 109-102)**

Appropriations for Foreign Operations, Export Financing, and related programs for FY2006. Section 560(c) prohibited funds from being made available to the U.N. Population Fund (UNFPA) for a country program in China; Section 575(b) provided \$4 million in ESF funds to NGOs to promote cultural traditions, sustainable development, and environmental conservation in Tibet; Section 589 prohibited the Export-Import Bank from using federal funds to approve an application for a nuclear project in China. Introduced in House June 24, 2005 (H.Rept. 109-152). House passed the bill, amended, by a vote of 393-32 on June 28, 2005. Referred to the Senate Committee on Appropriations on June 29, 2005 and ordered reported, amended, on June 30, 2005 (S.Rept. 109-96). Passed the Senate with an amendment on July 20, 2005 (98-1). The Senate named conferees on July 20, 2005; the House on October 27, 2005. Conference Report 109-265 was filed on November 2, 2005. The conference report included the UNFPA funding prohibition, \$4 million in ESF funding to NGOs for Tibet programs (along with \$250,000 to the National Endowment for Democracy for democracy programs relating to Tibet); and a Senate provision to provide \$5 million in Development Assistance to American educational institutions for activities and programs in the PRC relating to rule of law, the environment, and democracy. The House agreed to the Conference Report on November 4, 2005 (358-39); the Senate on November 10, 2005 (91-0). The bill was signed by the President on November 14, 2005.

**H.R. 3058 (Knollenberg) (P.L. 109-115)**

Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, FY2006. Section 951 of the bill (the Kilpatrick amendment) prohibited the Department of the Treasury from using funds to recommend approval of the sale of Unocal to the PRC's CNOOC Ltd. This language later was deleted by the Senate and was not included in the final Conference Report language (H.Rept. 109-307)—which passed the House on November 18, 2005 (392-31) and the Senate on November 21, 2005 (unanimous consent). The President signed the bill into law on November 30, 2005.

**H.R. 3100 (Hyde)**

East Asia Security Act of 2005. See H.R. 2601.

**H.R. 3283 (English)**

Introduced on July 14, 2005, and referred to the House Ways and Means Committee. The bill seeks to place further trade restrictions on non-market economies and particularly to further restrict and more heavily monitor various aspects of China's trade with the United States. The House passed H.R. 3283 on July 27, 2005 (255-168), including a countervailing duties provision (in Section 3) with respect to China. The bill was referred to the Senate on July 28, 2005, to the Committee on Finance.

**S. 295 (Schumer)**

Authorization of a 27.5% import duty on imports of PRC-made goods or agricultural products unless the President certifies to Congress that China is not indulging in unfair trade practices. Introduced on February 3, 2005, referred to Senate Committee on Finance.

**S. 1042 (Warner) (see H.R. 1815, above)**

National Defense Authorization Act for FY2006.

Section 2539C of the Senate bill requires the Secretary of Defense to annually report (by September 30) whether a foreign country with a reciprocal defense procurement agreement with the United States has “qualitatively or quantitatively” increased exports of defense items to the People’s Republic of China. The Senate bill was introduced on May 17, 2005. On May 12, 2005, the Senate Armed Services Committee ordered reported an original measure (S.Rept. 109-69), which was considered by the Senate on July 20, 21, 22, 25, and 26, 2005. (The House-passed bill, H.R. 1815, was referred to the Senate on June 6, 2005.) On July 26, 2005, cloture was not invoked on the Senate measure, (50-48), and the bill was returned to the calendar. The Senate considered the bill for seven days beginning November 4, 2005. It passed the measure (amended) on November 15, 2005 (98-0) and incorporated it into H.R. 1815 as an amendment. H.R. 1815 as amended ultimately was enacted as P.L. 109-115.

**S. 1117 (Lieberman)**

U.S.-PRC Cultural Engagement Act. To expand U.S. academic, cultural, and business activities and increase American expertise in Chinese language and culture. Provides funds to establish Chinese language centers to assist elementary and secondary schools and institutes of higher learning in offering Chinese language instruction; and funds to establish exchange programs between U.S. and PRC post-

secondary educational institutions. Introduced May 25, 2005, and referred to the Committee on Foreign Relations.

## Chronology

- 01/18/06 —** PRC sources confirmed that North Korea's Kim Jong-Il had just completed a secretive, eight-day visit to China, ostensibly to discuss the Six-Party Talks.
- 01/14/06 —** Villagers in Panlong village in Guangdong Province were attacked by police officers (and possibly paramilitary troops) on their sixth day of protests against government land seizures.
- 01/08/06 —** China's State Council issued a national emergency response plan, dividing emergencies into four categories: natural disasters; accidents; public health incidents; and social safety incidents.
- 01/04/06 —** Bolivia's president-elect Evo Morales arrived in Beijing for a two-day visit, calling China "a political, ideological and programmatic ally" and inviting Beijing to develop Bolivia's natural gas reserves.
- 12/15/05 —** The day after it announced containment of the bird flu epidemic, China reported its sixth human case of avian flu — in eastern Jiangxi Province.
- 12/14/05 —** Malaysia hosted the first meeting of the East Asia Summit (EAS) of 16 Asian countries, including China — but not the United States.
- 12/06/05 —** Security officials opened fire on protesters, killing some, in the town of Dongzhou, in Guangdong Province. The protesters were objecting to plans to build a new power plant on confiscated farmland.
- 10/26/05 —** The United States notified Congress that it had approved for sale to Taiwan 10 AIM-9M Sidewinder missiles and 5 AIM-7M Sparrow missiles, worth as much as \$280 million, both systems manufactured by Raytheon.
- 10/26/05 —** A Canadian court approved China National Petroleum Corporation's \$4.2 billion offer to buy Canadian company PetroKazakhstan.
- 10/26/05 —** The United States (backed by Japan and Switzerland) asked the WTO to force China to reveal details about how it is using legal and regulatory procedures to crack down on piracy of intellectual property.
- 10/24/05 —** The PRC's Ministry of Agriculture confirmed an outbreak of H5N1 flu in geese and chickens in Anhui Province, Liangying City.

- 09/25/05 —** Thousands of Taiwan citizens marched through Taipei in protest to the legislature's delay in passing the "special arms budget" to purchase American weapons.
- 09/20/05 —** Edward Ross, a senior Pentagon official, said it was reasonable to question whether the United States should continue to provide for Taiwan's self-defense "if Taiwan is not willing to properly invest in its own self-defense."
- 07/19/05 —** The Pentagon released the annual Chinese Military Manpower report for 2005. The report had been delayed for several months, reportedly due to bureaucratic disagreement over some of its conclusions.
- 07/01/05 —** Russia and China issued a joint statement, The Declaration on World Order in the 21<sup>st</sup> Century, denouncing "aspiration for monopoly and domination in international affairs" and calling for non-interference in other countries' internal affairs. Most interpreted the statement to be targeting U.S. policy.
- 06/30/05 —** The House voted 333-92 in favor of the Kilpatrick amendment to H.R. 3058, the FY2006 Appropriations bill for the Departments of Transportation and others, prohibiting funds from being used to recommend approval of the sale of UNOCAL to the PRC's CNOOC.
- 06/21/05 —** CNOOC made an unsolicited \$18.5 billion cash bid for American energy company Unocal.
- 06/14/05 —** The Congressional China Caucus was formally launched.
- 06/05/05 —** Agence-France Presse reported that in recent months (perhaps March), Taiwan had successfully test-fired its first "Hsiung-Feng" cruise missile, with a range of 1,000 miles.
- 04/15/05 —** Ambassador Zhou Wenzhong presented his credentials as new PRC ambassador to the United States.
- 03/20/05 —** Secretary of State Condoleezza Rice began two days of meetings in Beijing as part of her first trip to Asia as Secretary of State.
- 03/17/05 —** China released Uighur Muslim businesswoman Rebiya Kadeer, 17 months early in her eight-year sentence for "revealing state secrets."
- 03/14/05 —** China's National People's Congress adopted an "anti-secession" law targeted at reining in Taiwan independence advocates. The full text is at [<http://www.china-embassy.org/eng/xw/t187406.htm>]
- 02/21/05 —** According to the *Asian Wall St. Journal*, the U.S. Export-Import Bank made a preliminary commitment to provide Westinghouse Electric with a \$5 billion package to build 4 nuclear plants in China.

- 02/19/05 —** The United States and Japan issued a joint statement describing mutual security concerns, including Taiwan.
- 02/03/05 —** By a vote of 411-3, the U.S. House of Representatives passed a non-binding measure condemning the EU's plans to lift the arms embargo against China imposed after the Tiananmen crackdown of 1989.
- 01/08/05 —** According to the *Los Angeles Times* (p. C-3), the United States and China agreed to a new, multi-entry visa policy to facilitate business and tourist visits, effective January 15, 2005.

## **Appendix I:** **Selected Visits by U.S. and PRC Officials**

**December 7, 2005** — U.S. Deputy Secretary of State Bob Zoellick met in Washington D.C. with PRC Executive Vice Foreign Minister Dai Bingguo in the second session of the U.S.-China Senior Dialogue. At the same time, U.S. Under Secretary of State for Economic, Business, and Agricultural Affairs Josette Shiner also hosted a dialogue with Mr. Zhu Zhixin, Vice Chairman of China's National Development and Reform Commission (NDRC). (See August 1, 2005.)

**November 20, 2005** — President Bush met with President Hu Jintao and Premier Wen Jiabao in Beijing. His visit to China was part of an overall Asia trip that began in Japan and included South Korea and Mongolia. His remarks in China emphasized a U.S. commitment to the spread of democracy and to universal human rights and freedoms.

**October 18, 2005** — Secretary of Defense Donald Rumsfeld made his first official trip to China as Secretary, meeting with President Hu Jintao and PRC Defense Minister Cao Gangchuan. During his two-day trip, Secretary Rumsfeld visited the Second Artillery and addressed rising Communist Party cadres at the Central Party School, urging China to expand political freedoms and be more transparent about China's military.

**October 11, 2005** — Secretary of the Treasury John W. Snow and Chairman of the Federal Reserve Alan Greenspan began a week-long visit to China, among other things discussing China's currency valuation and trade surplus.

**September 13, 2005** — President Bush and President Hu Jintao met in New York while attending a U.N. meeting. The Bush-Hu New York meeting substituted for a Hu visit to Washington that was postponed at the last minute because of U.S. preoccupation with Hurricane Katrina.

**August 1, 2005** — U.S. Deputy Secretary of State Robert Zoellick arrived in Beijing to initiate “a new senior dialogue on global issues” in which Beijing and Washington will take turns as hosts. The session was the first of what is expected to be a regular U.S.-China Senior Dialogue.

**July 8, 2005** — Secretary of State Condoleezza Rice, Secretary of Commerce Luis Gutierrez, Secretary of Agriculture Mike Johanns, and U.S. Trade Representative Rob Portman left for a visit to the PRC for discussions about North Korea's nuclear program, tougher enforcement of anti-piracy laws for intellectual property, and other issues. The visit includes a meeting of the U.S.-China Joint Commission on Commerce and Trade (JCCT).

**June 6, 2005** — Secretary of Commerce Luis Gutierrez arrived in Beijing for meetings with his counterpart, Chinese Commerce Minister Bo Xilai. Gutierrez urged the PRC to crack down on IPR piracy, calling IPR violations “a crime.”

**March 20- 21, 2005** — Secretary of State Condoleezza Rice held talks in Beijing with PRC officials as part of a visit to Asia, including stops in India, Pakistan, Afghanistan, Japan, and South Korea. Her discussions included North Korea and the Six-Party talks, Taiwan, human rights, and plans to hold a regular U.S.-China senior dialogue.

**February 2, 2005** — U.S. officials from the National Security Council, Michael J. Green and William Tobey, presented evidence to officials in Japan, South Korea, and China that North Korea may have exported uranium to Libya. Mr. Green also delivered a letter from President Bush to President Hu Jintao underscoring the urgency of North Korea's possible sale of nuclear materials.

**January 31, 2005** — U.S. Deputy Assistant Secretary for Defense Richard Lawless held talks in Beijing to discuss U.S.-China security cooperation.

**January 12, 2005** — Secretary of Commerce Don Evans began a two-day visit to China — his fourth and last as Secretary — telling his Chinese hosts that the PRC needed to move to a floating exchange rate and protect intellectual property rights.

**January 4, 2005** — Chen Yunlin, the PRC's senior cross-strait official as head of the cabinet-level Taiwan Affairs Office, began a U.S. visit to discuss China's proposed anti-secession law. While in Washington, Chen met with Deputy Secretary of State Richard Armitage, new National Security Advisor Stephen Hadley, and U.S. Asian affairs official Michael Green.

## **Appendix II:** **Selected U.S. Government Reporting Requirements**

### **International Religious Freedom Report, China (*annual report*)**

*Most recent date available:* November 8, 2005

*Agency:* U.S. Department of State, Bureau of Democracy, Human Rights, and Labor

*Legislative authority:* P.L. 105-292, the International Religious Freedom Act (IRFA) of 1998, Section 102(b)

*Full text:* [<http://www.state.gov/g/drl/rls/irf/2005/>]

### **U.S. Commission on International Religious Freedom (*annual report*)**

*Most recent date available:* May 2005

*Agency:* U.S. Commission on International Religious Freedom (USCIRF)

*Legislative authority:* P.L. 105-292, the International Religious Freedom Act (IRFA) of 1998, Section 203

*Full text:*

[<http://www.uscirf.gov/countries/publications/currentreport/2005annualRpt.pdf#page=1>]

### **Reports on Human Rights Practices, China (*annual report*)**

*Most recent date available:* February 28, 2005

*Agency:* U.S. Department of State, Bureau of Democracy, Human Rights, and Labor

*Legislative authority:* The Foreign Assistance Act of 1961 (FAA), as amended, Sections 116(d) and 502(b); and the Trade Act of 1974, as amended, Section 504

*Full text:* [<http://www.state.gov/g/drl/rls/hrrpt/2004/index.htm>]

### **Military Power of the People's Republic of China (*annual report*)**

*Most recent date available:* July 19, 2005

*Agency:* U.S. Department of Defense

*Legislative authority:* P.L. 106-65, the National Defense Authorization Act for FY2000, Section 1202

*Full text:* [<http://www.defenselink.mil/news/Jul2005/d20050719china.pdf>]

### **Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions (*semi-annual report*)**

*Most recent date available:* July 1 through December 31, 2003

*Agency:* Director of Central Intelligence

*Legislative authority:* FY1997 Intelligence Authorization Act, Section 721

*Full text:* [[http://www.cia.gov/cia/reports/721\\_reports/july\\_dec2003.htm](http://www.cia.gov/cia/reports/721_reports/july_dec2003.htm)]

### **International Narcotics Control Strategy Report, 2005 (*annual report*)**

*Most recent date available:* March 2005

*Agency:* U.S. Department of State, Bureau for International Narcotics and Law Enforcement Matters

*Legislative authority:* Section 489 of the Foreign Assistance Act of 1961, as amended (the “FAA,” 22 U.S.C. § 2291); sections 481(d)(2) and 484(c) of the FAA; and section 804 of the Narcotics Control Trade Act of 1974, as amended). Also provides the factual basis for designations in the President’s report to Congress on major drug-transit or major illicit drug producing countries pursuant to P.L. 107-115, the Kenneth M. Ludden Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002, Section 591

*Full text:* [<http://www.state.gov/g/inl/rls/nrcrpt/2005/>]

**Report to Congress on China’s WTO Compliance (*annual report*)**

*Most recent date available:* December 12, 2005

*Agency:* United States Trade Representative

*Legislative authority:* P.L. 106-186, the U.S.-China Relations Act of 2000, authorizing extension of Permanent Normal Trade Relations to the PRC, Section 421

*Full text:*

[[http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2005/asset\\_upload\\_file293\\_8580.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/asset_upload_file293_8580.pdf)]

**Report Monitoring to Congress on Implementation of the 1979 U.S.-PRC Agreement on Cooperation in Science and Technology (*biannual report*)**

*Most recent date available:* April 15, 2005

*Agency:* U.S. Department of State, Office of Science and Technology Cooperation

*Legislative Authority:* P.L. 107-314, Bob Stump National Defense Authorization Act Section for FY2003, Section 1207

*Full text:* [<http://www.state.gov/g/oes/rls/or/44681.htm>]

**Report on Tibet Negotiations (*annual report*)**

*Most recent date available:* June 2005

*Agency:* U.S. Department of State, Bureau of East Asian and Pacific Affairs

*Legislative Authority:* P.L. 107-228, Foreign Relations Authorization Act, 2003, Section 613

*Full text:* [<http://www.state.gov/p/eap/rls/rpt/45015.htm>]